GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1590
ANSWERED ON:01.12.2006
FII THROUGH PN ROUTE
Owaisi Shri Asaduddin

Will the Minister of FINANCE be pleased to state:

(a) The pros and cons of issuing outstanding Participatory Notes (PN) against underlying Indian Securities ;

(b) Whether almost 50% of the investment by the foreign Institutional Investors (FII) in the Indian stock market is via PN ;

(c) If so, whether Enforcement Directorate has started investigation of PN in close association with SEBI ;

(d) If so, the details thereof; and

(e) The steps taken or being taken by the Union Government/RBI in this regard?

Answer

Minister of State in the Ministry of Finance (Shri Pawan Kumar Bansal)

(a) Participatory Notes (PNs) are instruments used by foreign funds, not registered in the country, for trading in the domestic market. They are derivative instruments issued against an underlying security which permit the holder to share in the capital appreciation / income from the underlying security. The following are the concerns pertaining to PNs:

(i) The identity of the actual investor need not necessarily be known to the regulatory bodies. The quality of funds being invested in PNs may also be of suspect nature.

(ii) Potential for enhancing volatility in the Indian Market.

(iii) Hedge Funds may be utilizing PNs to gain from fluctuations in the Indian securities markets.

(b) From September 2003 till date, the notional value of PNs as a percentage of assets under custody of FIIs has fluctuated between 19% to 34%.

(c to e): SEBI has not conducted any investigation of PNs with the Enforcement Directorate.